coming from cantonments; and about 400,000 men were discharged from the cantonments in this country during those fourteen days. Some of these will return to college and many to winter quarters on the farms, but it would probably be conservative to estimate that 50 per cent of these men are entering the labor market, though not all of them of course in the industrial centers.

There are still a number of cases of labor shortage with estimated increases in the volume of employment for ensuing weeks. These are, however, often misleading and most of them will probably prove but temporary. The cancellation of contracts for certain types of work is to become effective on February 1 or February 15, or March 1, as the case may be. Meanwhile in these industries additional workers are being employed in order that as large an output as possible may be produced before the fatal day arrives.

WASHINGTON NOTES

NEW PLAN OF RAILROAD CONTROL

The next forward step in the development of a definite plan of action on the railroad question was taken on January 9, when a committee representing the railroad executives of the country, which during December had been appointed to draw up a plan of action, presented itself before the Senate and there submitted a definite program for the consideration of the Interstate Commerce Committee, which is deliberating on the whole subject of relations between the government and the railroads. During the few days prior to the submission of the plan of the railroad executives, the Interstate Commerce Commission had itself been summoned before the Senate Committee and had declared itself in the main against the five-year government control plan of former Secretary McAdoo, made public in December last. The railroads' plan calls for the return of the railroad operating properties to their private owners in the near future under a system comprising principles which may be summarized as follows:

1. Private ownership, management, and operation of the roads.

2. Transfer of all powers of control over transportation, whether interstate or intrastate, to the national government and exercise of these functions by it on a definite system.

3. Relief of the Interstate Commerce Commission from administrative duties and re-establishment of its functions as a quasi-judicial body.

4. Establishment of a Department of Transportation headed by a cabinet officer charged with the administrative duties now exercised by the Interstate Commerce Commission as well as with others to be specified.

5. Control of the investment of capital by roads in branches, costly terminals, etc., by the Secretary of Transportation.

6. Valuation of railroad properties and control of railroad accounting to be exercised by the Interstate Commerce Commission. All other executive and administrative duties to go to the new Department of Transportation.

7. Carriers to be allowed to initiate rates, such rates to be permitted to go into effect by the Secretary of Transportation, or else to be suspended by the same officer and in either case arrangements to be made for the reference of rate controversies to the Interstate Commerce Commission.

8. Principles of rate-making to be laid down in the new legislation subject to the requirements that all rates shall be not only reasonable but adequate to attract the necessary capital to keep up the roads.

9. Appeal to the Interstate Commerce Commission with reference to rates to be permitted to any party in interest who desires to lodge a complaint.

10. The Interstate Commerce Commission to have power to prescribe minimum as well as maximum rates.

11. Existing rates to be continued in effect until changed by the Interstate Commerce Commission.

12. Carriers to be authorized to complain of the charges of other carriers if they desire.

13. The Interstate Commerce Commission to divide the country into zones, each such zone to be under the direction of a local commission controlling transportation therein.

14. Express rates to be regulated in the same way as freight rates.

15. The Clayton Act to be modified so as not to hamper the transaction of business.

16. The Sherman Act to be modified so as to permit pooling and interline agreements.

17. A Board of Arbitration between railroad capital and labor to be formed under the direction of the Secretary of Transportation.

18. Debt incurred by carriers during the period of federal control to be funded.

19. Government control of railroad securities issues.

20. Federal incorporation of all roads.

While this program appears to embody a large number of very radical departures from existing methods, analysis of the various proposals shows that in the majority of cases the suggestions made are in line with what has been generally accepted by students of transportation and by practical experts in years past. The proposal to modify the Sherman Act as applied to railroads, for example, has been very generally admitted to be sound for at least ten years past. Much the same is true of the suggestion that the government regulate railroad securities issues. There is more difference of opinion about federal incorporation and control over intrastate rates, but the consensus of expert ideas is undoubtedly in the direction indicated by the committee of railroad executives.

The new plan has apparently been received with unexpected favor in Congress, and the discussion of it before the Interstate Commerce Committee of the Senate has been more nearly free from the bitter controversial character characteristic of many past railroad discussions than could have been expected. How long a time will be necessary to obtain some definite action by Congress is still uncertain, but at least a fair beginning of the consideration of the question has been made.

END OF THE CAPITAL ISSUES COMMITTEE

With the end of December, 1918, the work of the so-called Capital Issues Committee has been brought to a close, another important step in the process of "demobilization" being thus definitely taken. While the committee has been maintained technically in legal existence it has ceased its operations and terminated the control it has been exerting over the issue of securities. By an inconsistent development, the so-called "money pool committee" established in New York for the purpose of regulating and controlling the making of loans on the stock exchange has undertaken to continue its existence and has maintained its present regulations in full effect. There has been a very considerable development of applications for the issue of new securities which would have come under the jurisdiction of the Capital Issues Committee, and the flotation of these issues is now going actively forward. This is parallel to the situation in Great Britain where, however, the control of capital issues exerted by the Treasury still continues. The British Treasury has within the month of December passed with its approval a much larger number of applications than had been previously permitted in any similar length of time, and the number still awaiting action is becoming very great.

These tendencies are symptomatic of the effort to re-establish business upon a normal basis and to make up some of the loss of time due to the war, in connection with extensions and improvements as well as with new enterprises. At the same time, borrowings at the banks have tended to grow much more active—so much so that the Federal Reserve Board has felt called upon to issue a letter of general warning and instruction to member banks against the undue use of rediscount facilities for profit-making purposes. There is thus far no perceptible effect of such representations, except perhaps greater caution on the part of the banks in some cases where they had previously been inclined to make very excessive applications for accommodation. Probably the most dangerous feature of the present condition of things is found in the disposition to make large loans based upon government bonds as collateral, the purpose being to obtain advantage of the lower rates of discount granted at Federal Reserve banks for paper collateraled by government obligations. It is a hopeful factor in this state of things that some of the more ably managed banks are already showing a desire to limit, so far as they can, the loans obtained by customers on the strength of government bonds and to encourage the presentation of genuine commercial paper for discount.

A beginning has at least been made in checking the inflationary tendency of the time in the matter of currency. Since the beginning of the war there has been an almost continuous expansion of Federal Reserve notes, resulting in a total issue of $2,200,000,000. This issue of notes has not all represented a net increase, since from it there must be deducted the gold coin and certificates withdrawn and impounded in Federal Reserve banks as a result of the reserve policy of the Federal Reserve System. When all allowances have been made, however, it is undoubtedly true that an expansion of at least $500,000,000 or $600,000,000, measured on a net basis, has occurred. Within the past month there has been a strong inward movement of paper currency to banks in various parts of the country, thus indicating the elasticity of the currency and its power to contract under certain conditions. The shrinkage of the outstanding volume of Federal Reserve notes has now apparently begun. Reappearance of gold and gold certificates in the deposits at banks represents the cessation of hoarding and the restoration of money to its commercial channels.

A NORMAL MONEY MARKET

Considerable progress has been made during the month of January in the direction of restoring normal conditions in the money market.

The Treasury Department has practically announced its determination to offer the Fifth Liberty Loan during the coming spring at a rate of interest roughly corresponding to the commercial or investment value of the securities. This may bring the rate perhaps as high as 5 per cent. Secretary of the Treasury Glass, in an address before New York bankers on the evening of January 13, while pointing out that the issue of these great loans was essentially a public matter, nevertheless fully conceded that the Treasury Department must stand ready to pay approximately the fair going value of money at the time of placing the loan. Although the announcement of the official rate for the new securities is still withheld, and although the public is still uncertain whether that rate will be granted in the form of actual interest or partly in higher interest and partly in tax concessions, the news that the Department intends to operate upon a fair basis has done much to stabilize investment conditions. On the other hand, the announcement of Secretary Glass, made on January 16, that he had requested the congressional authorities to extend the conversion privilege for the early liberty loans into bonds of the fourth loan, foreshadows the adoption of a definite funding or conversion policy.

At the same time, it has been made known that the Department would no longer interpose objections, as it has in the past, to the offering and sale of foreign government bonds in the American market. Such action was practically unavoidable in view of the unwillingness of Congress to authorize further advances to the allied governments upon the terms which had been laid down for the making of war loans to them. The restoration of the old plan of financing practically places the foreign buyer upon a commercial basis in the American market and tends to restore the commercial rate of interest which existed prior to the assumption of control over all foreign borrowings by the Treasury. It has further become unofficially known that arrangements are in progress with a view to the restoration of a free gold movement and a relaxation of foreign exchange control. All these conditions tend toward the restoration of confidence, and various unmistakable evidences of the better condition of the public mind resulting from these changes are already to be noted. Entire normality in the money market can of course not be re-established until the close of the period of extensive public financing. Such a close may be brought about at the end of the floating and payment of the Fifth Liberty Loan, should that loan as now expected prove to be the last of the series. Conditions indicate that even general and superficial recovery from the banking conditions resulting from an operation of this magnitude in a market like that

which now exists cannot be expected before the end of 1919. The close of this year, however, may easily see the beginning of fairly stable and conservative conditions in the after-war financial and banking system of the United States.

PROGRESS OF WAR-REVENUE ACT

The Senate on December 15 passed the so-called "war-revenue bill" (H.R. 12863, Sixty-fifth Congress, Third Session), otherwise known as "An act to provide revenue and for other purposes." The revenue act as thus adopted contains in all six hundred and two amendments to the House draft. Many of these amendments are purely technical, while many of them are changes in the administrative structure of the proposed revenue system due to further thought and study on the subject. A few represent genuine departures of theory from the ideas embodied in the House plan. There are important alterations in the inheritance tax as to technique and rates, as well as in the method of levying the excess-profits tax and of measuring income and capital for taxation. All in all, however, the bill as thus adopted is essentially the same general plan that was passed by the House in September and represents an attempt to comply with the Treasury program of raising $1 in taxation for every $2 in loans for war purposes, a program which, however, could not have been adhered to had the war continued even a little longer. As things stand the termination of the war and the consequent reduction of federal expenditures, which will sooner or later occur, may make it possible to conform to the proposed relationship between loans and taxation. The trouble with the new measure is that although peace has now returned in fact if not in theory, the finances of the nation continue to be on a war basis for the present at least, while the public is unable to understand, or to approve, the maintenance of a war-revenue basis in time of peace.

Probably the most severe criticism of war-revenue-raising methods and of treasury finance in general that has yet been offered is that furnished by the American Economic Association in the report of its war committee presented at the annual meeting in Richmond on December 28. In this report the familiar errors and injustices of the tax program are set forth. The fact which stands out most clearly in this report is, however, the attempt to levy war-profits taxes and excess-profits taxes upon "profits" which, although shown in terms of dollars on the books of corporations, have not been realized but are only theoretically in hand. The effort to place the levy on this basis must,

as is now pointed out by the committee, necessarily compel the taxpayer who has not realized his profits either to borrow the funds necessary for tax payments from his bank or else to attempt to obtain them through hasty sales of his assets. The latter course inevitably results in an even greater shrinkage of prices than would otherwise take place, while the condition of the market at the close of an exhausting war is naturally anything but favorable to the successful or satisfactory disposal of valuable property. It does not help the situation that the preparations for the Fifth Liberty Loan now evidently contemplate the placing of this loan at a time which will bring the tax payments almost simultaneous with, or parallel to, the new borrowing. As the requirements of the Treasury have been gradually developed under the headship of Hon. Carter Glass, the successor of Secretary McAdoo, who took office on December 16, it has become evident that Treasury requirements have become greater than even at first supposed. That the loan will equal or exceed $6,000,000,000 is now generally believed, and this amount is practically the estimated yield of the new revenue bill. The problem of actually finding and paying to the government the sum of $12,000,000,000 within the first half or two-thirds of the year 1919 is anything but encouraging to industrial managers as well as to the recipients of incomes.

SUBSIDIZING GOLD PRODUCTION

On October 30, 1918, a special committee, which had been appointed on behalf of the Bureau of Mines and of the Geological Survey to consider the question whether the gold-mining industry of the United States needs stimulus in order to increase its production, and if so what the method of assistance should be, filed its report with the Secretary of the Interior. The report, which was made public on January 3, 1919, is considerably less vigorous than had been expected, since it does not propose to subsidize the production of gold, except indirectly. It elaborately reviews the conditions of producing gold which have prevailed during the past few years and shows that some decline has taken place in the amount of the output. Expenses in producing the metal have risen very greatly, as is true of all other costs of production, and this has tended to drive out of operation the less productive mines of the various regions. On the other hand, the committee shows that steps have been taken in various countries to restrict the movement of gold as a result of a war policy which sought to maintain bank reserves at as high a level as possible and that these have tended to bring about

banking inflation and hence to raise prices, a fact which in itself has reacted upon the production of gold by rendering it more expensive and less profitable. It is further urged that the present system of federal taxation, and particularly the excess-profits tax, has tended to discriminate against gold production, so that, as a result, the industry has suffered in various ways. The views of the committee favor the exemption of gold mining from excess-profits taxation and the restoration of the free movement of gold at as early a date as can be arranged, as well as the granting of war preferences to gold mining as regards labor and supplies. The members do not recommend the payment of a direct subsidy to gold mining, notwithstanding that this plan has been strongly urged in Great Britain, where a special commission has been at work investigating the situation, and has lately filed a report dealing more particularly with the condition of gold mining in the British possessions. The effort to subsidize gold mining has already been recognized by economists as tantamount to a proposal for additional banking inflation, and, accordingly, has not been favorably received by more than a very limited number of persons outside of the mining industry and those directly dependent upon it. This suggestion was discussed at the last annual meeting of the American Bankers Association, but at that time received only a very qualified support in the form of a resolution approving more equitable or generous treatment in the matter of taxation.